

## Kuwait and global equities sign off 2019 with a strong rally

### MSCI confirms decision to add Kuwait to its EM indices

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Kuwait ended the year as the best performing GCC market in 2019, posting its best yearly returns since 2014. The strong rally in Kuwait equities during the year stemmed from MSCI's decision to include Kuwait in its emerging market indices from next year. Saudi Aramco's record IPO concluded successfully during the month, with the stock touching the coveted USD 2 trillion valuation in the first few days of trading before investors locked in some profits.

We see the following issues as key developments during the month of December:

- 1. MSCI confirms Kuwait's Emerging Market status** – MSCI's much awaited confirmation on whether Kuwait will be upgraded to Emerging markets came during December in favour of Kuwait. MSCI decided to add Kuwait to its MSCI EM index in May 2020 with an expected weightage of 0.69%. The move is expected to bring in passive and active inflows and fuel the continuation of the rally in Kuwaiti equities moving into 2020.
- 2. GCC Capital Market roundup of 2019** – GCC Equity markets had a positive year in 2019, with Kuwait leading the gains. The IPO space was quiet in 2019 as well, with only five companies coming out with an IPO, confined to the Kingdom of Saudi Arabia, the major highlight being the IPO of Saudi Aramco. The GCC debt market continues to be strong, with sovereign issuances being the dominant force.
- 3. Shamal Azzour Al-Oula: First Kuwait PPP project to get listed**  
- Kuwait Authority for Partnership Projects successfully concluded the public offering of its stake in Shamal Azzour Al Oula. The offering was equal to 50% of Shamal Azzour Al Oula stake totalling 550 million shares. The public offering is mandated by the IWPP and PPP Laws, which requires the State to offer 50% of the total ownership of PPP projects to Kuwaiti citizens through a public offering.

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## GCC Market Commentary

### GCC Market Trends – January 2020

Index	M. Cap (USD Bn)	Last close	2018 %	Dec - 19	2019 %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P GCC	441.0	116	8.4	5.9	8.3	0.123	N.A	14.8	2.0	3.4
Saudi Arabia	2,400.2	8,389	8.3	6.7	7.2	0.063	1,326.4	17.9	2.1	-
Qatar	146.3	10,426	20.8	2.7	1.2	0.098	56.0	14.6	1.4	4.1
Abu Dhabi	142.2	5,076	11.7	0.9	3.3	0.094	46.7	12.9	1.4	4.9
Kuwait (All Share PR)	118.1	6,282	5.2	6.0	23.7	0.011	125.5	15.1	1.5	3.4
Dubai	79.3	2,765	-24.9	3.2	9.3	0.124	52.5	6.8	0.9	4.3
Bahrain	26.5	1,610	0.4	5.5	20.4	0.040	3.2	11.1	1.0	4.4
Oman	13.0	3,981	-15.2	-2.0	-7.9	-0.018	6.0	8.1	0.7	7.2

Source: Reuters, Zawya, Note: \* Average Daily Value Traded \*\* - 3-year daily return correlation with S&P 500 index

The year 2019 ended on a positive note for GCC markets as a whole. The S&P GCC index registering yearly gains of 8.3%, with all markets barring Oman posting positive returns. Bahrain was the second biggest gainer among GCC markets, rising by 20.4% in 2019, after a flat performance in the previous year. Dubai, which was the worst performer among GCC markets in 2018, rebounded this year to post gains of 9.3%. On the contrary, Qatar, which was the best performer in the previous year, remained flat with mild gains of 1.2% in 2019. Despite the announcement of a stimulus package to boost Abu Dhabi's economy in late 2018, its market witnessed only slight uptick of 3.3% in 2019. Meanwhile, Oman's equity market remained weak, falling for the second consecutive year, down by 7.9% in 2019. GCC's largest market Saudi Arabia had a topsy-turvy year, ending up with gains of only 7.2% despite its MSCI emerging market inclusion. As investor sentiment was affected by the escalation of geopolitical tensions, Saudi market's gains were modest. However, 2019 would be remembered as a milestone year for Saudi Arabia as the stock exchange successfully oversaw the World's largest IPO. Saudi Aramco's record IPO concluded in December, with the stock touching the coveted USD 2 trillion valuation in the first few days of trading before investors locked in some profits.

### Monthly returns heat-map of S&P GCC Composite index

S&P GCC	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	3.4%	3.7%	2.7%	2.8%	3.2%	-7.4%	8.1%	6.4%	-1.4%	-6.8%	-10.9%	-4.4%	-2.6%
2015	2.8%	4.4%	-6.9%	10.1%	-2.3%	-3.5%	0.1%	-13.2%	-1.1%	-2.7%	-2.3%	-2.4%	-17.3%
2016	-10.7%	3.7%	1.9%	5.7%	-5.1%	1.1%	-0.1%	-1.2%	-3.9%	2.2%	7.9%	4.2%	4.3%
2017	1.6%	-0.8%	-1.5%	-0.4%	-1.4%	3.2%	-0.4%	0.9%	-0.6%	-2.7%	-1.5%	3.4%	-0.4%
2018	5.3%	-2.5%	3.4%	2.9%	-0.4%	1.1%	2.2%	-2.5%	0.2%	0.1%	-2.0%	0.7%	8.5%
2019	6.8%	-1.0%	2.8%	4.4%	-5.6%	2.5%	1.1%	-5.8%	-0.7%	-2.6%	1.3%	5.9%	8.3%

Source: Reuters

Likewise, Kuwait markets witnessed sharp yearly gains with its All Share Index gaining 23.7% and its Premier market Index gaining 32.4%. MSCI's confirmation in December provided the impetus for Kuwaiti stocks to close the year on a high. With an estimated weightage of 0.69% in the MSCI Emerging Market index, Kuwait can expect sizeable passive and active foreign inflows into its equity markets next year. Banking stocks were the biggest gainers among sectors, rising by 35.7% for the year. All of Kuwait's Blue Chip companies registered sizeable gains during the year, with the market's two largest stocks Kuwait Finance House and National Bank of Kuwait emerging as the biggest gainers among Blue Chips, rising by 46.0% and 34.7% respectively.

**Global Market Trends – January 2020**

Equity	Last close	December change (%)	2019 change (%)
S&P GCC	116	5.9	2.3
MSCI World	2,358	2.9	21.7
S&P 500	3,231	2.9	25.3
MSCI EM	1,115	7.2	7.7
MSCI FM	991	3.5	5.7
Commodities			
IPE Brent(\$)	66	5.7	22.7
Gold(\$)	1,517	3.6	18.3

Source: Reuters

Global equity markets were buoyant in 2019 despite concerns surrounding the U.S.-China Trade War. Several global markets closed the year with its main equity indices closing at record highs. The MSCI World Index rose by 25.2%, its best yearly performance since 2014. Similarly, U.S. equities had a stellar year, with the S&P 500 posting yearly gains of 28.9%. Three rate cuts by the U.S. Fed, strong economic fundamentals and the agreement of an interim trade deal with China supported the rally in U.S. equities as the country entered the 11th consecutive year of economic expansion. Risks of a recession seemed to die down as the U.S. sovereign yield curve steepened in December 2019, with the spread between the 2-year and 10-year treasury yields reaching its highest since November 2018. Despite Brexit uncertainties and a political shakeup during the year, U.K. markets (FTSE 100) stood strong with yearly gains of 12.1%. Emerging Market equities were also on the rise, with the MSCI EM Index posting closing the year 15.4% higher.

Oil prices closed at USD 66.0 per barrel in 2019, which would translate to a gain of 22.7% compared to the end of previous year. Supply side disruptions and the deepening of production cuts by OPEC balanced concerns from the demand side, as Oil prices stabilized in the last quarter of 2019. With fears of recession raising concerns among global investors, Gold prices witnessed a rally during the year, with its YTD gains peaking at 21.1% during September 2019 before settling down 18.3% at the end of the year.

## MSCI confirms Kuwait's Emerging Market status

Kuwait equity markets have had their best yearly gains since 2014, and have also comfortably outperformed its GCC peers in 2019. One of the primary reasons for this stellar rally is the upgrade of Kuwait into emerging market status by Morgan Stanley Capital International (MSCI), a leading provider of global capital market indices. The company confirmed on December 18, 2019 that it would reclassify Kuwait as an emerging market. The reclassification will coincide with MSCI's May 2020 Semi-Annual Index Review. Earlier on June 25, 2019, MSCI announced that it would reclassify Kuwait subject to availability of omnibus account structures and same National Investor Number (NIN) cross trades for international investors before the end of November 2019. As Kuwait markets have satisfied these criteria, MSCI has affirmed its decision during its December review. Kuwait now becomes the fourth GCC nation following the UAE, Qatar and Saudi Arabia to become part of the MSCI EM indices. The euphoria surrounding the upgrade has turned the attention of foreign investors to Kuwait markets and contributed to the rally in Kuwaiti stocks.

One of the primary benefits of this upgrade would be the inflow of passive and active foreign inflows into the equity markets. Inclusion into globally tracked indices will lead to wider investment participation, thereby driving demand for the country's local assets. As Kuwait is moving from the Frontier Market Index, which has lesser number of funds tracking it, to an index tracked by much more funds, the country is expected to see a surge in passive inflows during the time the inclusion takes place. As per latest data, assets worth approximately 1.8 Trillion USD (KD 546 Billion) track the MSCI EM index. Considering the pro-forma weightage of 0.69%, we estimate a passive inflow of between USD 2.5-7.5 billion (KD 0.75-2.3 billion) from the inclusion into emerging markets.

### Marmore Estimates – Expected passive inflows

Passive Inflows from MSCI EM inclusion	
A. Funds benchmarked to MSCI EM Index	USD 1.8 Trillion (KD 546 Billion)
B. Pro Forma Weightage of Kuwait in the index	0.69%
C. Expected Fund Flow at 100% (A*B)	USD 12.4 billion (KD 3.8 Billion)
<b>D. Passive inflows at 60% (C*60%)</b>	<b>USD 7.5 billion (KD 2.3 Billion)</b>
<b>E. Passive inflows at 20% (C*20%)</b>	<b>USD 2.5 billion (KD 0.75 Billion)</b>

Source: MSCI, Marmore Research

Furthermore, the visibility of Kuwait's economy and Capital Markets would improve, as the market upgrade would result in more research houses tracking the country's developments. Additionally, pricing of assets would also be more rational due to the improvement in visibility of the market. These factors would help in increasing market participation of global and domestic investors, which would in turn contribute positively towards the development of Kuwait's economy. MSCI had earlier stated in June that nine Kuwaiti stocks are expected to be included in this process with a pro forma weightage of 0.5%. The latest announcement from MSCI in December states that a weightage of 0.69% in the MSCI EM index is a positive surprise for Kuwait as it is higher than what several analysts had expected.

The direct and indirect benefits attained though the inclusion would provide the impetus for Kuwait's capital market to grow further. However, securing these inclusions do not mean the end of the road for further reforms. Taking cue from the case of Qatar and UAE whose fortunes were mixed after the emerging market upgrade, it is safe to say that the index inclusion does not guarantee everything. The role of capital markets must also extend to making capital raising for companies easier, encouraging more companies to list, channelizing household savings into domestic financial investments, improving corporate governance, increasing transparency and ensuring stability of the markets. While an upsurge in liquidity and improved foreign participation is expected out of the upgrade, holding onto those levels is another story altogether.

## GCC Capital Market round-up of 2019

### Market performance

Kuwait stock market, Boursa Kuwait, outperformed its GCC peers with total cumulative returns of 23.7% in 2019, aided by investor euphoria on MSCI's announcement on reclassification of the Kuwait to emerging market status. This inclusion is expected to enable easier access to the local stock market leading to an increased participation by foreign investors.

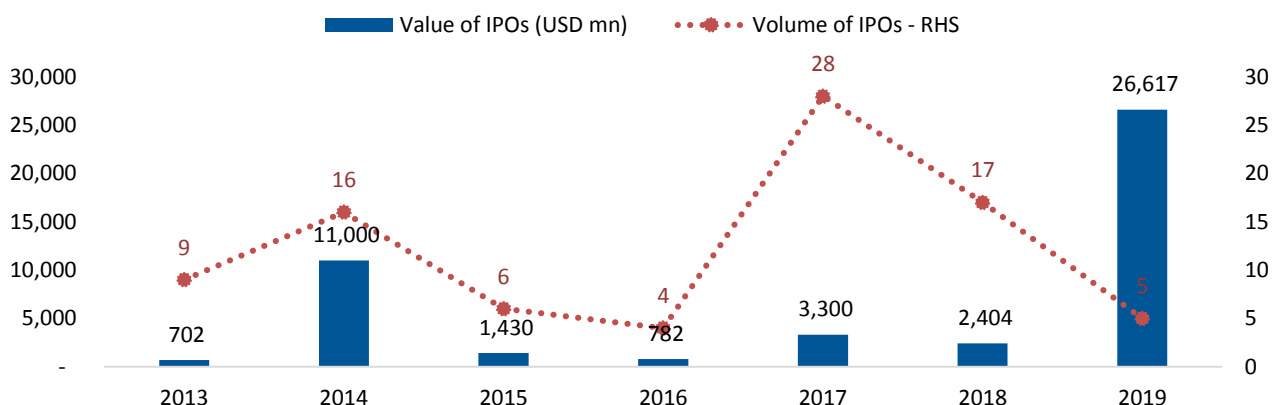
We witnessed a reversal in the stock market performance in Dubai from a negative 23.7% in 2018 to a rise of 9.3%, so far in 2019. UAE markets currently trade at a P/E of 10.7, which is lower than past five-year average P/E of 11.6. Dividend yield for the UAE market at 4.7 percent is attractive as it is much higher than the government yields. However, with oil prices hovering below the fiscal breakeven price for UAE, reliance on recurrent government expenditures programs, and widening deficits add to the downside risks.

Following Tadawul's inclusion in the MSCI Emerging Market Index in June of 2018, shares in the Kingdom of Saudi Arabia suffered from profit booking during the early parts of 2019. However, the news regarding the potential listing of Saudi Aramco helped in to bring life back into the Tadawul index, which then closed the year with gains of 7.2%. Tadawul, which opened to foreign investors in 2015, signed an agreement with the Abu Dhabi Securities Exchange earlier in 2019 in a bid to encourage dual listings in Saudi Arabia and the UAE. Moreover, Tadawul and the Saudi Capital Market Authority are working with investors in the GCC to allow cross-border listings on the Saudi stock exchange, which will further promote equity activity in the region.

### IPOs

The GCC equity markets were quiet in 2019, with only five companies coming out with an IPO, confined to the Kingdom of Saudi Arabia. Although 2018 closed on a promising note, 2019 started slowly with only one IPO in the GCC region in the first quarter. This sole IPO was, nonetheless, a milestone for the Kingdom as it was the first ever IT company to list on Tadawul.

### GCC yearly IPO Activity



Source: PwC

Whilst there were no equity listings on the UAE exchanges, two major groups, Network International (the largest payment services provider in the region) and Finabl (owner of UAE Exchange and Travelex), successfully completed their IPOs on the London Stock Exchange's Main Market during the second quarter of 2019. This reinforces that UAE businesses are highly regarded by international investors and could encourage more GCC companies to follow suit in the coming quarters.

## GCC IPOs in 2019

Quarter	Name	Sector	Exchange	Money raised (USD Mn)	No. of shares offered (Mn)
Q1-19	Al Moammar Information Systems Company	Information Technology	Tadawul	58	4.8
Q2-19	Arabian Centres Company	Retail	Tadawul	659	95.0
Q2-19	Maharan Human Resources Company	Professional Services	Tadawul	207	11.3
Q3-19	Ataa Educational Co.	Consumer Services	Tadawul	93	12.0
Q4-19	Saudi Aramco	Oil and Gas	Tadawul	25,600	30.0
				<b>26,617</b>	<b>153</b>

Source: PwC

The month of December finally witnessed the long awaited listing of Saudi Aramco that raised a combined USD 25.6 billion. The share sale was the biggest to date, surpassing that of China's Alibaba, which raised USD 25bn in 2014. The unprecedented size of Aramco's IPO had an overshadowing impact on the overall GCC IPO market for 2019, however, its successful listing will help improve investor confidence and attract higher capital to the other Gulf markets in the medium and long term. Moreover, a number of firms in the UAE market have indicated plans to go public in the near future, with one report estimating over USD 7bn will be raised collectively<sup>1</sup>. Tourism, retail, healthcare and education sectors are all well represented amongst the candidates.

Expansionary policies, government incentives and continuing privatisation efforts in the region are helping to improve capital market sentiments in the GCC region. Efforts to attract investments continue, with the UAE Government confirming sectors eligible for 100% onshore foreign ownership. Continued privatisation efforts across Saudi Arabia, Oman and Kuwait will also help drive momentum. However, geopolitical uncertainties are expected to continue to affect the regional economy. The recent events in the Gulf of Oman, the tug of war between US and China, and the ongoing Brexit uncertainties put a dent on the IPO market in 2019.

## GCC bond and sukuk issuances

The GCC debt market continues to be strong, with sovereign issuances dominating as usual. The inclusion of GCC sovereign bonds to JP Morgan's Emerging Market Bond Index from January 2019 has helped to further boost the demand for these sovereign bonds, as evidenced by the over-subscription of the recent KSA and Qatar bond issuances we witnessed this year. However, we cannot discount the rising corporate debt activity in the region.

The first quarter witnessed notable multi-tranche issuances by the State of Qatar (USD 12bn) and the Kingdom of Saudi Arabia (USD 7.5bn). In addition to the seasoned bond issuers, 2019 also witnessed active corporate debt activity with a number of issuances ranging from banking institutions, including a Tier 1 sukuk by Dubai Islamic Bank and programme drawdowns by Qatar International Islamic Bank, Mashreq Bank and First Abu Dhabi Bank.

Aramco's mega bond issue in April led the GCC debt market into the global limelight. From a debt market perspective, Saudi Aramco's inaugural bond issue was the most prominent transaction of the second quarter

<sup>1</sup> [Khaleejtimes.com](http://Khaleejtimes.com)

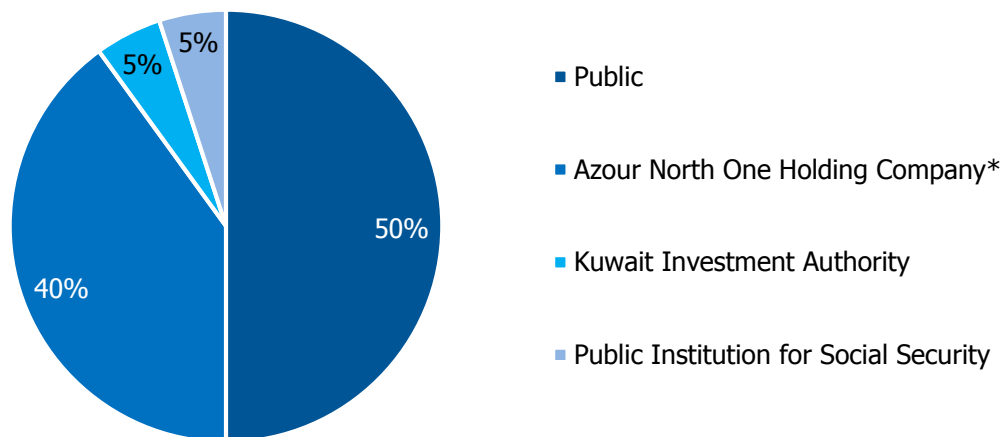
of 2019, raising USD 12bn for the company. Equally remarkable was the extent of its oversubscription, as the books were oversubscribed by eight times. The debt market was also active in the UAE as the Emirate of Sharjah and the Islamic Development Bank Trust Services Limited raised USD 1bn and USD 1.5bn, respectively, on Nasdaq Dubai during the second quarter of 2019.

The third quarter saw the first sovereign bond issued by the Emirate of Abu Dhabi in the last two years. The country's positive credit rating and competitive return attracted significant amount of investors' interest. Additionally, Dubai became one of the largest global centres for sukuk listings by value when global port operator, DP World, listed sukuk worth USD 1.5bn and bonds worth USD 800m on Nasdaq, Dubai. The Kingdom of Saudi Arabia also issued its first Euro denominated bond worth EUR 3bn. Overall Saudi Arabia issued USD 31.5bn in debt in 2019 to help fund government spending.

## Shamal Azzour Al-Oula - First Kuwait PPP project to get listed

Kuwait Authority for Partnership Projects (KAPP) successfully concluded the public offering of its stake in Shamal Azzour Al Oula. The offering was equal to 50% of Shamal Azzour Al Oula stake totalling 550 million shares, which was equivalent to 100% of KAPP's stake in the company's capital. The remaining 50% of the company's shares continue to be owned by its current shareholders.

### Ownership Structure of Shamal Azzour Al Oula after IPO:



Source: aznoula.com

\*Comprising a consortium of investors including Engie, Sumitomo Corporation and AH Al Sagar & Brothers

The public offering, which ran from October 1 to November 29, generated strong investor interest with 127,000 Kuwaitis signing up to subscribe for shares. The 50% share offer in Shamal Azzour Al-Oula saw a subscription rate of 127%.

Shamal Azzour Al-Oula is the first company to be established as a Public-Private Partnership (PPP) project and the first PPP to be offered for public subscription. The company is the owner and operator of Az-Zour North One Power and Water Plant, which is the first privately-owned gas-fired combined cycle power and water desalination plant established under the Independent Water and Power Project (IWPP) Law. The facility commenced commercial operations in November 2016 and currently supplies about 10% of Kuwait's installed power generation capacity and about 20% the total installed water desalination capacity.

The public offering is mandated by the IWPP and PPP Laws, which requires the State to offer 50% of the total ownership of PPP projects to Kuwaiti citizens through a public offering. This forms an integral part of a predominant government effort to include citizens in the ownership of mega projects that are offered to private sector institutional investors. In addition to providing attractive investment opportunities to citizens, the PPP projects also help empower the private sector to take the lead in growing the non-oil economy of the nation.

Shamal Azzour Al Oula is the first phase of the five phases of Kuwait's IWPP, which is a part of Kuwait Ministry of Electricity and Water (MEW) strategy to increase the country's capacity to meet electrical and water demand over the coming years. Power and water produced by the company is supplied entirely to the national power and water grid operated by the Kuwait Ministry of Electricity and Water, under a 40-year long-term Energy Conversion and Water Purchase Agreement.

KAPP's was advised by a consortium for the transaction comprising of Watani Investments Company (NBK Capital) as the lead advisor, Kuwait Clearing Company as the technical advisor, International Counsel Bureau as the legal advisor and Bensirri Public Relations as the media advisor.



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